

Pflueger & Baerwald Inc.
Notes to Financial Statements
March 31, 2016

Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Pflueger & Baerwald Inc. (the "Company") was incorporated in the State of California on April 11, 1973. The Company is a registered broker-dealer in securities under the Securities and Exchange Act of 1934, a member of the Financial Industry Regulatory Authority ("FINRA"), and the Securities Investor Protection Corporation ("SIPC").

The Company is a securities broker-dealer that provides several classes of services, including retailing corporate equity securities, mutual funds, municipal securities and corporate debt securities.

Under its membership agreement with FINRA and pursuant to Rule 15c3-3(k)(2)(ii), the Company does not execute or clear securities transactions for customers. Accordingly, the Company is exempt from the requirement of Rule 15c3-3 under the Securities Exchange Act of 1934 pertaining to the possession or control of customer assets and reserve requirements.

Summary of Significant Accounting Policies

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Commissions receivable are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Receivable from clearing organization represents commissions earned on securities transactions. These receivables are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Securities transactions and related commission revenues and expenses are recorded on a settlement date basis. Accounting principles generally accepted in the United States of America require transactions to be recorded on a trade date basis; however there is no material difference between trade date and settlement date for the Company.

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(CONTINUED)**

Property and equipment are stated at cost. Repairs and maintenance to these assets are charged to expense as incurred; major improvements enhancing the function and/or useful life are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gains or losses arising from such transactions are recognized. Property and equipment are fully depreciated as of March 31, 2016. The Company uses MACRS depreciation for its books which is not considered GAAP. However, the difference between MACRS and GAAP is immaterial to the financial statements.

The Company accounts for its income taxes in accordance with FASB ASC 740, Income Taxes. This standard requires the establishment of a deferred tax asset or liability to recognize the future tax effects of transactions that have not been recognized for tax purposes, including taxable and deductible temporary differences as well as net operating loss and tax credit carryforwards. Deferred tax expenses or benefits are recognized as a result of changes in the tax basis of an asset or liability when measured against its reported amount in the financial statements.

Current income taxes are provided for estimated taxes payable or refundable based on tax returns. Deferred income taxes are recognized for the estimated future tax effects attributable to temporary differences in the basis of assets and liabilities for financial and tax reporting purposes. Measurement of current and deferred tax assets and liabilities is based on provisions of enacted federal and state tax laws.

Note 2: RECEIVABLE FROM CLEARING ORGANIZATION

Pursuant to its clearing agreement, the Company maintains proprietary accounts that are held by Pershing LLC ("Clearing Broker"). The Clearing Broker has custody of the Company's cash balances in such accounts which serve as collateral for any amounts due to the Clearing Broker as well as collateral for securities sold short or securities purchased on margin. Interest is paid monthly on these cash deposits at the average overnight repurchase rate. The Clearing Broker protects the assets held in the proprietary accounts by treating them as a Proprietary Account of Broker Dealers ("PAB Account") and will not use the assets held in these accounts in its ordinary course of business. As of March 31, 2016, the amount on deposit in proprietary accounts and receivable from the Clearing Broker was \$264,847.

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Note 3: DEPOSIT WITH CLEARING ORGANIZATION

Pursuant to its clearing agreement, the Company introduces all its securities transactions for its customers to Pershing LLC ("Clearing Broker") on a fully disclosed basis. Customers' money balances and security positions are carried on the books of the Clearing Broker. In accordance with the clearing agreement, the Company has agreed to indemnify the Clearing Broker for losses, if any, which the Clearing Broker may sustain from carrying securities transactions introduced by the Company. In accordance with industry practice and regulatory requirements, the Company and the Clearing Broker monitor collateral on the customers' accounts. The Company maintains a Deposit Account with the Clearing Broker to further assure the Company's performance of its obligations under the clearing agreement. The balance at March 31, 2016 in the Deposit Account was \$100,000.

Note 4: INVESTMENT, AT MARKET VALUE

Investments, at market value consist of corporate equities and debt. As discussed in Note 1, marketable securities held by the Company are classified as trading securities and stated at their fair market value based on quoted market prices. At March 31, 2016, these securities are carried at their fair market value of \$519,885. Accounting for the mark-to-market on proprietary accounts is included in the Statement of Operations as net investment gains of \$33,775.

Note 5: INCOME TAXES

The provision for income tax expense (benefit) is composed of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ -	\$ -	\$ -
State - California	800	-	800
State - Vermont	<u>300</u>	<u>-</u>	<u>300</u>
Total income tax expense (benefit)	<u>\$ 1,100</u>	<u>\$ -</u>	<u>\$ 1,100</u>

The income tax provision consists of the California Franchise Tax Board minimum tax of \$800 and the Vermont minimum tax of \$300. The Company has available at March 31, 2016, unused Federal net operating losses, which may be applied against future taxable income or carried back to offset previous taxable income, resulting in a deferred tax asset of approximately \$17,689. The net operating loss begins to expire in the year 2029.

A 100% valuation allowance has been established against this benefit since management cannot determine if it is more likely than not that the asset will be realized.

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Note 5: INCOME TAXES
(CONTINUED)

The Company is required to file income tax returns in both federal and state tax jurisdictions. The Company's tax returns are subject to examination by taxing authorities in the jurisdictions in which it operated in accordance with the normal statutes of limitations in the applicable jurisdiction. For Federal purposes, the statute of limitations is three years. Accordingly, the company is no longer subject to examination of federal returns filed more than three years prior to the date of these financial statements. The statute of limitations for state purposes is generally three years, but may exceed this limitation depending upon the jurisdiction involved. Returns that were filed within the applicable statute remain subject to examination. As of March 31, 2016, the taxing authorities have not proposed any adjustment to the Company's tax position.

Note 6: CONCENTRATIONS OF CREDIT RISK

The Company is engaged in various trading and brokerage activities in which counter-parties primarily include broker-dealers, banks, and other financial institutions. In the event counter-parties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counter-party or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counter-party.

Note 7: PROFIT-SHARING PLAN

The Company has established a retirement and profit-sharing plan for full-time employees, which was amended and restated effective April 1, 2014. The Plan operates as a Safe Harbor 401(k) Plan. The 3% Safe Harbor 401(k) contribution is elected 30 days prior to the beginning of the fiscal year. Employees immediately vest at a rate of 100% on such contributions. The Company made \$15,226 in Safe Harbor 401(k) Plan contributions to the plan during the year ended March 31, 2016.

Note 8: FAIR VALUE MEASUREMENT - ACCOUNTING PRONOUNCEMENT

FASB ASC 820 defines fair value, establishes a frame work for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the assets or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

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**Note 8: FAIR VALUE MEASUREMENT - ACCOUNTING PRONOUNCEMENT
(CONTINUED)**

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.

Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability either directly or indirectly.

Level 3 are unobservable inputs for the assets or liability and rely on managements' own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Fund's own data.)

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2016.

Assets	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Investments,				
at Market Value	\$ 519,885	\$ 519,885	\$ -	\$ -
Total	<u>\$ 519,885</u>	<u>\$ 519,885</u>	<u>\$ -</u>	<u>\$ -</u>
 Liabilities				
Payable to clearing				
organization	\$ 568	\$ 568	\$ -	\$ -
Total	<u>\$ 568</u>	<u>\$ 568</u>	<u>\$ -</u>	<u>\$ -</u>

Note 9: COMMITMENT AND CONTINGENCIES

Commitments

The Company had no commitments, no contingent liabilities and had not been named as a defendant in any lawsuit at March 31, 2016 or during the year then ended.

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Note 10: GUARANTEES

FASB ASC 460, Guarantees, requires the Company to disclose information about its obligations under certain guarantee arrangements. FASB ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying factor (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of indebtedness of others.

The Company has issued no guarantees at March 31, 2016 or during the year then ended.

Note 11: SUBSEQUENT EVENTS

Subsequent to the year ended March 31, 2016, the Company entered into an agreement to amend its operating lease dated August 23, 2005, and amended on June 17, 2010. The terms of the Second Amendment to Lease as of April 4, 2016 provide for a commencement date of May 1, 2016 and a termination date of April 30, 2019.

The Company has evaluated events subsequent to the balance sheet date for items requiring recording or disclosure in the financial statements. The evaluation was performed through the date the financial statements were available to be issued. Based upon this review, the Company has determined that there were no other events which took place that would have a material impact on its financial statements.

Note 12: RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (the "FASB") has established the Accounting Standards Codification ("Codification" or "ASC") as the authoritative source of generally accepted accounting principles ("GAAP") recognized by the FASB. The principles embodied in the Codification are to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP in the United States. New accounting pronouncements are incorporated into the ASC through the issuance of Accounting Standards Updates ("ASUs").

For the year ending March 31, 2016, various ASUs issued by the FASB were either newly issued or had effective implementation dates that would require their provisions to be reflected in the financial statements for the year then ended.

The Company has either evaluated or is currently evaluating the implications, if any, of each of these pronouncements and the possible impact they may have on the Company's financial

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**Note 12: RECENTLY ISSUED ACCOUNTING STANDARDS
(CONTINUED)**

statements. In most cases, management has determined that the pronouncement has either limited or no application to the Company and, in all cases, implementation would not have a material impact on the financial statements taken as a whole.

Note 13: NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital of not less than 2% of aggregate debit items (\$0) arising from customer transactions or \$250,000, whichever is greater. Rule 15c3-1 also requires that equity capital may not be withdrawn or cash dividends paid if the resulting net capital is less than 5% of such items. Net capital and aggregate indebtedness change day to day, but on March 31, 2016, the Company had net capital of \$784,786 which was \$534,786 in excess of its required net capital of \$250,000.